

Measure “O”/Measure “Q” Supplemental Transaction and Use Tax

Supplemental Transaction and Use Tax Background.

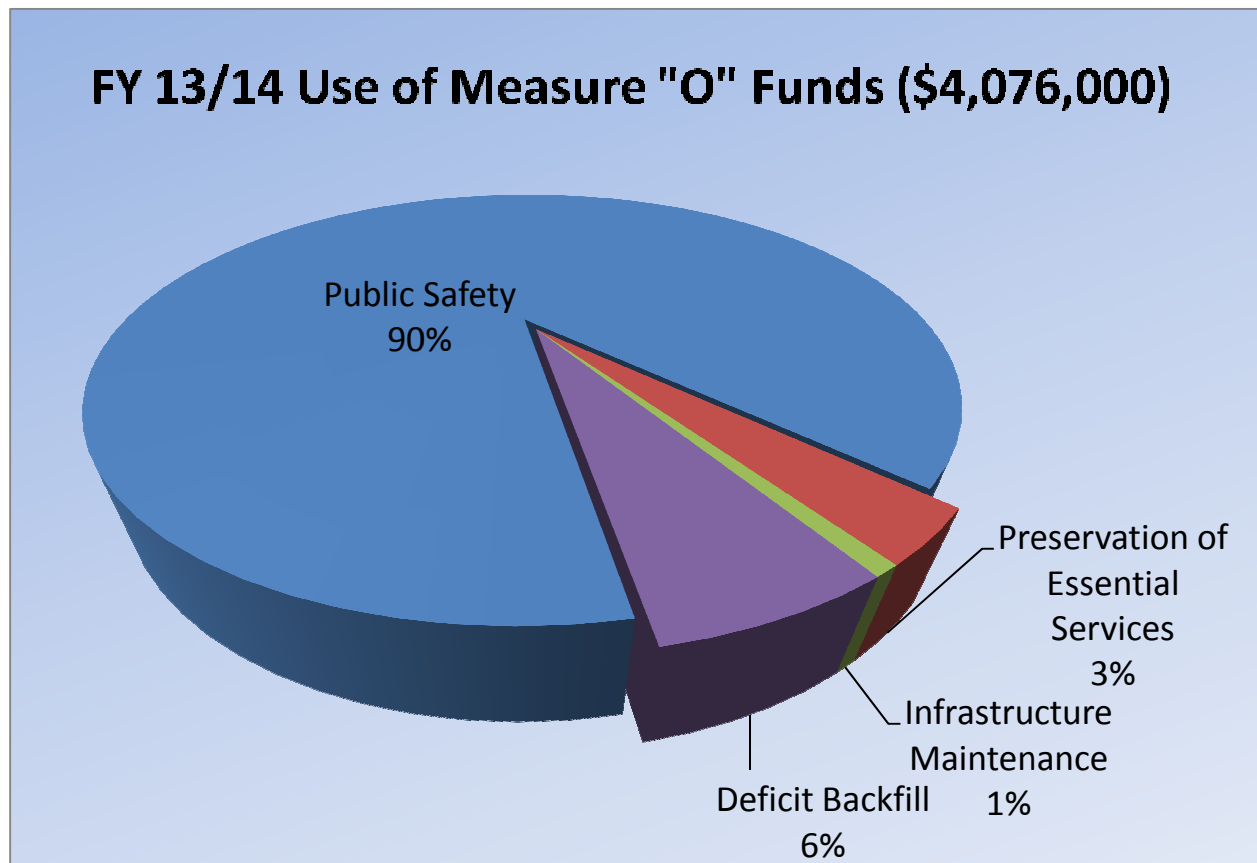
A Transaction and Use Tax may be approved locally and added to the combined state and local sales and use tax rate. Transactions and Use Taxes generally apply to merchandise that is delivered in a jurisdiction which imposes such a tax. In practice the Tax application and allocation for most retail sales does not differ from the sales and use tax. But there are some differences. Importantly, in the case of a sale or lease of a vehicle, vessel, or aircraft, a transaction and use tax is charged and allocated base on the location in which the property will be registered.

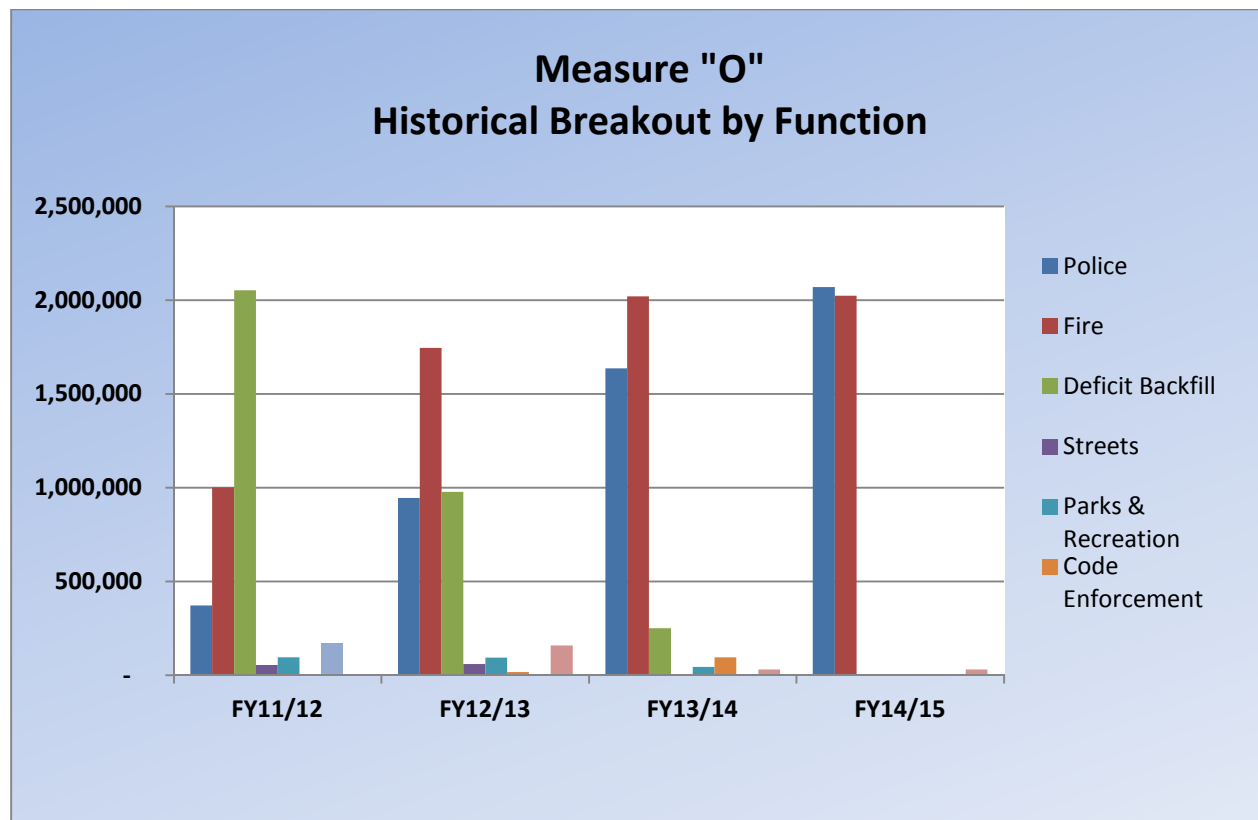
On November 2, 2010 the voters of Eureka approved Measure “O” which was a ½ cent Transactions and Use Tax (Tax) for General Fund services. The Tax was effective April 1, 2011 and will expire on June 30, 2016 given the five year sunset. Since the passage of Measure “O” the City of Eureka has relied on this locally-controlled revenue source to fund essential local municipal services. These funds which cannot be taken or cut by the State government have assisted the City Council in funding the budgets of the police, fire, emergency medical response, street maintenance, zoo, parks, and recreation departments. Without the Tax, these programs and services could not have been maintained at their current levels. Although the Supplemental Transaction and Use Tax is a General tax, these funds are maintained in a separate fund.

Along with a five-year sunset, requirements for annual audits, annual community reports on how much revenue is generated by the Tax, and how the funds are spent, Measure “O” also included requirements for accountability and citizen oversight through a Finance Advisory Committee. Measure “O” was a general purpose tax measure and so the proceeds are not restricted to specific purposes. This gives the City Council flexibility to respond to new circumstances and challenges.

Measure "O" FY13/14 and FY14/15 Budgets

While the ballot language of the Measure provided examples of the types of uses that would be funded with the assistance of revenue generated by the Tax, it is through their annual budgetary process that these Tax funds are allocated to operating programs and capital improvements. The following charts illustrate how these Tax funds were allocated:





Measure "O" History and Accomplishments

Voter Approval of Measure "O".

Beginning with the Fiscal Year 2006/07 Budget and through the Fiscal Year 2009/10 Budget, the City Council was required to reduce General Fund staffing and programs in order to balance the city's annual operating budgets. These budget reductions were necessary due in large part to the slowdown in the state and national economies, as well as increasing pension and healthcare costs. The budget cuts necessary during this time included the elimination of several non-public safety positions, as well as reductions to vital environmental and community support programs, reduced maintenance of infrastructure and City facilities, and the depletion of City reserves below adequate levels. However, the City Council maintained their goal of keeping "boots-on-the-street" by not cutting public safety personnel.

With the adoption of their Fiscal Year 2010/11 Budget the City Council once again faced a massive budget shortfall and for the first-time they were forced to include major reductions to public safety programs and personnel in order to balance their tight budget. Faced with the reality of twelve public safety positions slated to be cut on December 31, 2010 and a recurring “structural deficit” of nearly \$1.7 million in future years, the City Council adopted on July, 2010 an ordinance placing the ½ cent Transactions and Use Tax (Measure “O”) on the November 2, 2010 ballot.

To inform the public about the realities of the City’s budget and the need for the additional revenue to protect essential local services the City Council, City Manager and Finance Director made numerous budget presentations to the local media, business and community leaders, service clubs, and other organizations. Flyers were distributed to the public to inform them of the City’s fiscal condition and represented City employees, on their personal time, and volunteers held public forums and went door to door discussing the importance of the Measure “O” initiative.

On November 2, 2010, Eureka’s voters approved Measure “O”, a ½ cent transactions and use tax for General Fund services. The additional tax imposed effective April 1, 2011 was first distributed to the City in June 2011 by the State Board of Equalization. The tax ends on June 30, 2016 upon the five (5) year sunset.

The Finance Advisory Committee and Public Priority Setting.

It was anticipated that the Tax would restore many of the General Fund services cut in the prior fiscal years inclusive of the proposed sworn public safety positions included with the adoption of the Fiscal Year 2010/11 Budget. Although final City budget decisions are the responsibility of the City Council, the Ordinance provides for the appointment of a citizen’s committee to provide oversight of the use of these new funds and to make recommendations to City Council on the use of funds. To assist the City Council with the process of prioritizing the Tax funds, the Finance Advisory Committee was given the oversight responsibility. The Tax was not sufficient to restore all services previously

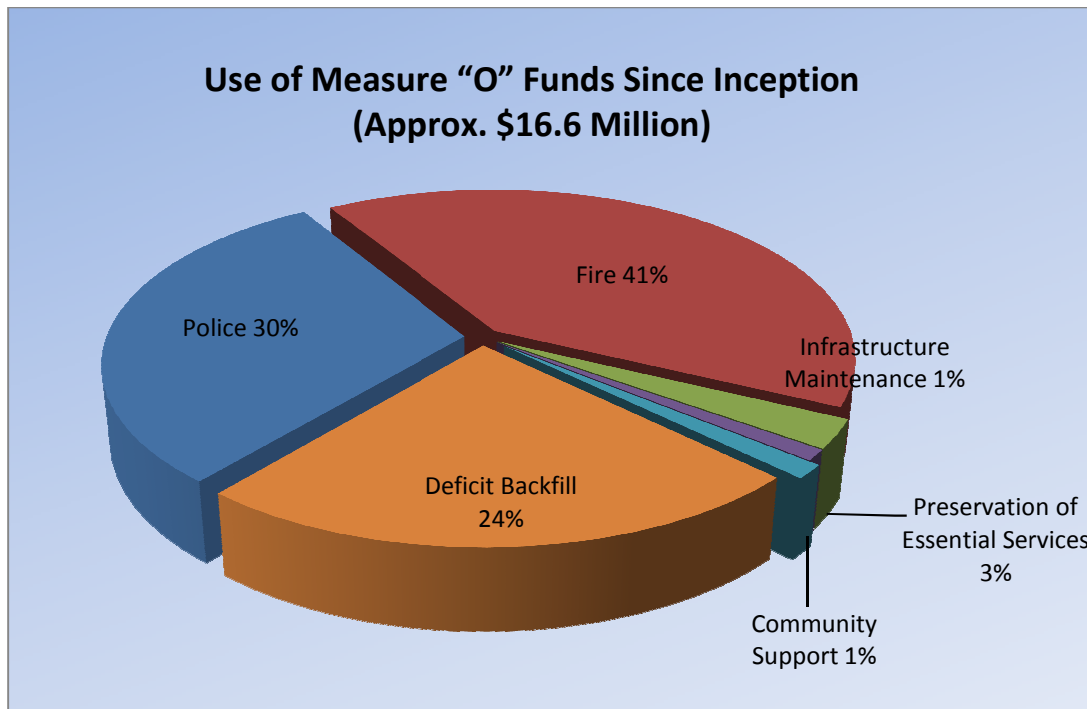
eliminated, therefore, a deliberative, collaborative, and community oriented process was undertaken to make decisions on services to be funded with the Tax proceeds.

FY10/11 Initial Allocation of Measure “O”.

The FY10/11 Operating and Capital budgets were the culmination of years of constant budget review as services and programs were reduced and /or eliminated, as well as an intense community participation in the restoration of services resulting from Eureka’s voters’ approval of Measure “O” in November 2010. The initial allocation (\$607,000) by the City Council of the Measure “O” funds was approved on December 21, 2010, and enabled the restoration of the twelve (12) public safety positions slated for termination on December 31, 2010.

Actual Expenditures of Measure “O” – FY10/11 through FY13/14, and Budgeted FY14/15.

Since its inception, through the FY14/15 this general purpose revenue is expected to generate \$16.6 million. Of this, \$11.8 million has been allocated to the preservation of essential public safety programs; \$282,000 has been allocated to neighborhood wellness and community enhancement projects; \$345,000 has been allocated to previously cut maintenance programs; \$189,000 has been invested in the deferred maintenance of City facilities; and \$4.0 million has been used as reserve backfill for public safety deficit. This funding has enabled the City Council to provide important and valued services to the community; for both day-to-day operating programs, as well as severely needed one-time capital improvements. Over the three year history of Measure “O”, and with the addition of FY14/15, approved appropriations are as follows:



Supplemental Transaction and Use Tax Accomplishments.

Police – Since the inception of Tax, the Police Department received and used 30% of all available Tax proceeds for operations including the restoration of the seven (7) sworn positions slated to be cut on December 31, 2010. In addition to the restoration of these positions the personnel allocation within the Eureka Police Department (EPD) has been enhanced with employees assigned to the Problem Oriented Policing team (POP); Traffic Safety; Communications Dispatching Services. Other personnel enhancements realized with Measure "O" funding includes or has included the maintenance of historic levels of sworn police officers, communications dispatchers, records clerks, and police service officers. These positions have allowed the Police Department to maintain a basic level of service.

"Measure "O" has been an immeasurable help to the Eureka Police Department. Not only does it provide EPD with the staffing to manage calls for service, but allows us the resources to deal with the more recalcitrant crimes. These are the very crimes that bring social disorder and deteriorate the essence of the Eureka community of yesterday. Measure "O" enables the police to work on homeless crimes and transient populations, high traffic accident locations, drug

trafficking and the environmental issues that come with it. The Problem Oriented Policing team is staffed almost exclusively with Measure "O" money.

Without Measure "O" proactive policing would be a thing of the past. Gangs, transnational crime and preventative measures would become subordinate to just managing calls for service. As the county seat and a growing population of early release felons, Eureka needs Measure "O" to supply the resources needed to control crime and bring order."

Police Chief Andrew Mills (12/10/13)

Fire – Since the inception of Tax, the Fire Department received and used 41% of all available Tax proceeds for operations including the restoration of the five (5) Fire Department personnel positions slated to be cut on December 31, 2010, and the new fire apparatus. In addition to these Fire Prevention and Suppression personnel the department has received funding to maintain the City's Fire Volunteer Program and Emergency Operations Center. Tax proceeds have also been used to match a \$1 million grant to replace the City's Aerial Fire Truck and to maintain Fire Department facilities. These Tax funds have also stabilized the City's funding of the Eureka Fire Department which has made possible the fire department consolidation with the Humboldt Fire District #1-creating Humboldt Bay Fire.

"Measure "O" has been extremely beneficial for maintaining Fire services for the City. Prior to the passage of the Supplemental Transaction and Use Tax, the Fire department was facing the prospect of reduced staffing and reducing the day to day emergency services we provide to the community. The passage of the Tax and resulting direct funding to the fire department has enabled us to reach full staffing for the first time in many years. Additionally it enabled the department to replace old and outdated equipment such as our ladder truck. This new funding, coupled with the consolidation of the City and District Fire departments has resulted in improved services that are more efficient and effective than ever before. By reducing duplication and redundancy we have improved services including the implementation of Advanced Life Support/paramedic services, the highest level of care available outside of an emergency room, to our community. The Tax funds were also instrumental in allowing us to

implement a Water Rescue Team, improve our Fire Prevention services and to upgrade our Urban Search and Rescue equipment.

Without the Tax funds, emergency services in the City would have been reduced. With these Tax funds we're not only able to maintain existing services, but in conjunction with consolidation and cost saving measures, expand those services to provide tangible benefits to the citizens we service".

Fire Chief Ken Woods (12/10/13)

Public Works – Over the three years since the inception of the Tax, Public Works received and used 2% of the available Tax funds for operations. These moneys have assisted the City Council in the restoration of the City's street sweeping, and parks maintenance programs. These funds have enabled the City to partner with the County's Sheriff Work Alternative Program (SWAP) to provide a crew one day per week to maintain City owned properties and greenbelt areas. The Tax proceeds have also been used to address some of the City's "worst case" deferred maintenance projects, as well as matching funds to the Emergency Management Administration grant for the 2010 earthquake repairs.

"Measure "O" funding has allowed the Public Works department to reinstitute the street sweeping program after it was cut due to a lack of funding. This program, along with another Measure "O" funded program utilizing the Sheriff's Work Alternative Program for beautification projects around the City, is instrumental in the City Council's "Clean Streets" vision. Without Measure "O" funding I believe Public Works would be hard pressed to find alternative funding for either program in the future".

Bruce Young, Public Works Director (12/10/13)

Other Departments that have received and used 3% or less of available Tax funds for operations are:

- Enhanced Building and Code Enforcement

- Community Support (Senior Resource Center, Clarke Museum, RSVP, etc)
- Economic Development (Visitor Center, Mainstreet, Convention and Visitor's Bureau)
- Grant match for the 2010 earthquake repairs to City facilities

Measure "Q" – November 4, 2014 Election to renew the Supplemental Transaction and Use Tax

Under the requirements of Proposition 218, "the Right to Vote on Taxes Act", no local government may impose, extend, or increase a general tax until such tax is submitted to the electorate and approved. The election to approve a general tax must be consolidated with a regularly scheduled general election for members of the governing body of the local government except in those cases of emergency declared by a unanimous vote of the governing body.

Section 35.190 Termination Date, of the enabling ordinance of the City's Supplemental Transaction and Use Tax included an initial term of five (5) years; ending on June 30, 2016. To extend the Tax beyond the initial five years the City Council will be required to submit to the voters an ordinance amending the Eureka Municipal Code extending the Tax. With the Tax scheduled to end on June 30, 2016, the City Council approved placing a ballot measure extending the Tax on the November 4, 2014, ballot for the voter's consideration.

Measure "Q" will continue to provide approximately \$4.1 million annually to maintain critical public safety services, public infrastructure, and other high priority city services. The City of Eureka has exercised a high level of fiscal responsibility throughout the past four years and will continue to place the highest priority of Measure "Q" funding on police and fire services.